Subject: Consumer Panic? March 20, 2020
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Are consumers in a panic? That's the top question that I have been repeatedly asked for the past week. The latest data from the University of Michigan's consumer sentiment surveys indicate that the coronavirus has reduced consumer optimism, and more importantly, it will continue to do so as the virus spreads in the weeks and months ahead. The panic atmosphere that has developed, however, is quite unlike anything that today's consumers have ever experienced. It is now primarily based on fears about personal health rather than personal finances. Panic reactions have ranged from the important to the trivial: from protecting the youngest and the oldest among us, to buying-in-advance an adequate supply of toilet paper needed for self-isolation at home. In stark comparison, there is little evidence that the panic is due to the escalating downturn in business activity and mounting job losses. To be sure, people's health and finances are intimately connected. Nonetheless, there has been widespread approval of the measures to protect health, even when it comes at a high economic cost. That initial pass on the economic consequences of health policies has been facilitated by very favorable economic conditions built by more than a decade of uninterrupted economic growth.

The goal of public policy is to halt the spread of the coronavirus, or, at least, to flatten the peaks, so that our medical facilities would not be overwhelmed. Policies have gradually become more restrictive along with the unrelenting spread of the virus, and those extensions have been largely supported by the population. At some future point, as the economic harm inevitably rises, it will begin to overcome consumers' patience. Self-isolation for several weeks is quite different than for several months, a consideration that economic and social policies have not fully communicated with the public. Moreover, regional reductions in infection rates may not result in fully reopened firms and restored jobs due to interdependencies of materials and employees across the nation and the world. Policy makers have implicitly decided that the adoption of these more fundamental policies could be postponed. When the uncertainty clears, however, it may be too late. Proactive instead of reactive policy responses are urgently needed.

The first step is to recognize the immense threat that the coronavirus has for the welfare of the nation. Comparison to prior recessions, even the Great Recession, fail to correctly account for the loss of life let alone the very high eventual economic costs. Government policies should adopt as its standard the same one used during WWII: being uncertain about the outcome, meant that more spending was justified to guarantee the well-being of our nation. Concerns about rising federal deficits are irrelevant to current policy decisions. Even if deficits caused higher future taxes and inflation rates, no one would begrudge larger fiscal stimulus that successfully limits and finally ends the devastating impact of the coronavirus on American families.

An economic recession has already begun, and it is likely to reduce consumer spending for a period that is two to three times as long as the virus crisis. What is needed is an aid package that provides multiple sources of cash transfers and debt forbearance. The multiple sources would include an immediate cash transfer to all households, plus other cash transfers based on layoffs, healthcare costs, school lunch eligibility, as well as across many other aid programs. Debt forbearance should involve loan refinancing at lower rates and no-cost extensions rather than simply delaying payments or providing additional loans that will act to impede the financial recovery of households. These steps are especially important since consumers are likely to increase their saving balances and to decrease their use of credit in the aftermath of the virus. With an economy that was anticipated to grow at about a 2% pace before the virus took hold, even small additional cutbacks in consumer spending could promote a lingering recession. The risks of doing too little are far higher that the risks of doing too much.